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TO: David Beran

DATE: 9/9/93

FROM: Stuart Fuller

WE SHOULD SEE IF THIS CURVE STAYS THE SAME IN THE FACE OF 4G ADV + PROMO support ! JIM

SUBJECT: Target Value for Basic Price Gap

Previously, we had reported preliminary results that on average for each 10¢ increase Basic would lose between -0.6 to -0.9 share (or about 10% of its share in the stores analyzed). This relationship is different depending on the current price of Basic relative to the lowest price in the store. For example, when Basic starts at parity with the lowest price the majority of this effect is canceled out. Basic remains relatively insensitive to small changes in gap as long as the total gap is under 10¢.

However, as the gap increases beyond 10¢ price sensitivity increases dramatically. We believe that the critical threshold is just above 10¢. According to our model the short term share loss in going from a 10¢ to a 20¢ gap would be on the order of 20% to 30% of Basic's previous share. As the gap increases further the rate of share loss would gradually diminish. For a store in which Basic has consistently been at a higher gap, additional gap increases pose less risk of lost business, and less opportunity.

The implications of this analysis are as follow:

1) Tactical price support on Basic should have the goal of reaching and maintaining a maximum 10¢ price gap versus the lowest pack price in the store. Priority ought to be given to stores in which the starting gap is between 10¢ and 20¢. These stores should yield the greatest return for money spent in buying down the price.

2) Stores in which the gap is currently below 10¢ should be maintained at that level. Any changes in competitive price must be acted on quickly to avoid potentially severe share losses.

Follow-up issues

The NCS stores represent only two gap levels between Basic and the lowest price: 5-10¢ and 25-30¢. We have inferred that price sensitivity is non-linear between these levels, but cannot verify this with the current data. We are reviewing other data sources to find stores with intermediate gap levels.

In addition, the NCS chain has few stores with minimum price under 99¢. We are also seeking data to find out if Basic's price sensitivity in such an environment is similar to what we found in NCS.

We are reviewing additional data sources to answer these questions and will issue follow up reports as they are completed.

cc.

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